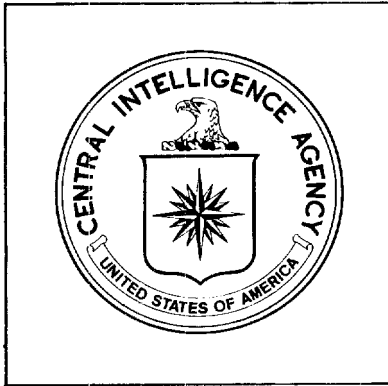


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WESTERN EUROPE — CANADA — INTERNATIONAL ORGANIZATIONS

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Secretary Kissinger's Business Week Interview

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Carlo Francanzani, secretary of the foreign affairs committee in the Italian Chamber of Deputies, has called for "drastic condemnation" by both the government and parliament of Secretary Kissinger's comments on the possible use of force against the Arab oil producers. Francanzani, a left-wing member of the dominant Christian Democratic Party, said that "Europe and Italy must explicitly disassociate their own positions from that of the US." He requested that Foreign Minister Rumor meet with the foreign affairs committee to discuss the issue.

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Francanzani's request appears to be a maneuver to force the Moro government to take a position on the issue. Rome has been careful not to offend the Arabs, given the fact that imported oil--most of which comes from the Middle East--accounts for about 80 percent of Italian energy consumption. The Italians have also been negotiating with some Arab states for loans to help offset the country's huge trade deficit. Rome's largest single supplier of oil in the Middle East--Libya--has been pressuring the Italians to show more independence of the US.

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Cypriot Leaders Prepare for Talks

1 Greek Cypriot negotiator Clerides and Turkish Cypriot negotiator Denktash will meet tomorrow in another attempt to reach agreement on the terms of reference for the substantive negotiations leading to a Cyprus settlement.

1, 7 A snag developed in the talks last month over the question of who will guarantee the final settlement. The Turkish side apparently favors the previous arrangement which designated Greece, the UK, and Turkey as the guarantors. Such an arrangement would give the Turks the right to intervene if the settlement was violated.

3 4 Denktash, moreover, reportedly is not anxious to begin substantive negotiations because of his concern that Ankara, under pressure from the US, will be inclined to make "great and irreparable" concessions. Denktash's uncompromising posture may also be intended to deflect criticism by hardliners in his cabinet and by those who have charged him with poor management of the Turkish Cypriot sector.

5 5 Denktash's tough bargaining stance was endorsed by former Turkish prime minister and Republican Party leader, Bulent Ecevit, who visited Cyprus last week. In a Nicosia speech, Ecevit rejected the legal basis of the Makarios presidency and reiterated that Turkey would not abandon its guarantor role or accept an "artificial increase" in the number of guarantor powers. He also stated flatly that important issues could not be addressed in the intercommunal talks until Turkish Cypriots in the south and in the British bases are allowed to move north. Ecevit's remarks drew immediate fire from Greek and Greek Cypriot officials.

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4 Ecevit's visit to Cyprus, however, was primarily staged to remind his countrymen on the Turkish mainland that it was he who had engineered the Cyprus victory. In this way he probably hoped to consolidate his support within the armed forces and head off Justice Party leader Demirel who is close to obtaining the absolute majority that would enable him to form a center-right government. Ecevit is still seeking a formula to end the government crisis--now in its fourth month--that would include a call for early elections, which he believes would return him to power with a parliamentary majority.

4 The problem of establishing satisfactory negotiating procedures, meanwhile, has been complicated by uncertainty about President Makarios' role in the process. Makarios is not trusted by the Turkish side and Denktash is uneasy about the prospect that any agreement he negotiates with Clerides must still be approved by Makarios.

6 Makarios has been devoting much of his time to the formation of his cabinet which is expected to be announced this week. Once that hurdle has been surmounted, he probably will direct his attention to the negotiations, although the deep divisions within the Greek Cypriot community will continue to be a troublesome element in the Cyprus equation. (Secret No Foreign Dissem)

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EC Mediterranean Policy

Relations between the EC and its Mediterranean neighbors will enter a new phase early this year when the community concludes preferential trade agreements with Israel and the Maghreb states of Algeria, Tunisia and Morocco.

These negotiations mark the first step in the EC's so-called global Mediterranean policy designed to expand EC trade and influence in the area. The arrangements, some of them expansions of existing agreements, cover preferential reduction in tariffs on industrial goods and provide EC concessions for some 85 percent of its agricultural imports from the Mediterranean countries. The "global" nature of the EC's strategy is derived from the inclusion of new protocols on technical, financial, economic and environmental cooperation and equal treatment for migrant workers.

The idea for a comprehensive Mediterranean policy was pushed largely by France in 1972 on the grounds that some coherence should be brought to the haphazard assortment of trade and association agreements which the EC concluded in the early 1960's. EC-Mediterranean trade was growing--Mediterranean states were importing almost as many products from the Nine as the US and exporting over half of their goods to the EC--and most of the EC's trade agreements were soon to expire.

The addition of three new members to the community in 1973 further complicated the EC's relations with its southern neighbors. The entry of the UK, in particular, demanded extensive renegotiation of the EC's trade agreements. Under EC rules the UK would be required to abandon its liberal import system for Spanish and Israeli goods. This could result in a sharp

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increase in UK food prices and damage to the economies of Spain and Israel.

In response to these practical difficulties, and French pressure to expand European influence in the Mediterranean, the EC decided upon a more comprehensive approach aimed at all states bordering the Mediterranean, Portugal, as well as Jordan. It was a mostly unstated hope that this new cooperation policy--if not the preferential trade aspects of it--would set a pattern for future relations with the oil-producing states of the Middle East.

In a joint statement issued last month, in fact, the EC and Algeria did state their intention that the "global" Mediterranean policy would go beyond the framework of bilateral relations and extend to the broader problem of three-way cooperation between Europe, Africa, and the Arab countries. EC relations with the Arab states are, of course, now being pursued separately in the Euro-Arab dialogue, which remains distinct from the Mediterranean negotiations.

Although appealing in its design, the EC's strategy has proved very difficult in its application. The widely disparate economies of the littoral states and the great variety of previous EC commitments have required separate bilateral negotiations. Although the new agreements still reflect the common guidelines set down by the EC, differences in treatment from country to country have not been eliminated.

Countries whose exports were most threatened by the UK's coming under the EC's tariff rules--Spain, Israel and, to a lesser extent, Malta--were chosen to participate in the first round of negotiations. Morocco and Tunisia were included in the negotiations because their association agreements were scheduled to expire in 1974.

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Algeria, which had no formal agreement with the EC, was also invited to participate in order to regularize the anomalous relations dating from its former ties to France.

EC negotiations with Spain and Malta stalled late last year when both countries rejected EC offers as insufficient. Spain sought substantial additional concessions in agriculture and Malta requested a stronger commitment to financial assistance and technical cooperation. No date has been fixed for the resumption of either set of negotiations.

Negotiations with the four remaining states, however, are progressing well and major agreements should be announced in January or February. The most important provisions of the new agreements are those relating to financial, technical and scientific cooperation. Protocols tying technical assistance to supply guarantees from the Mediterranean states will be used as models in future EC negotiations with developing countries.

The new agreements also provide for increased access to the European Investment Bank, more equal treatment for migrant workers, a reduction in agricultural tariffs, and free entry to the EC of most industrial products. Although previous agreements were limited to five years, the new arrangements are of unlimited duration, with the exception of five-year restrictions on protocols covering the treatment of workers and aid policy.

Negotiations proved most difficult in the agricultural sphere since France and Italy compete directly with citrus products exported by Israel and the Maghreb. Agreements on the importation of Algerian wine and refined petroleum products required hard bargaining.

A major factor in these negotiations has been the question of reverse preferences--reciprocal tariff cuts that the littoral states

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may grant to the EC under the new association agreements. The US opposes them as a further step towards dividing up markets in the developing world but the EC--despite waning enthusiasm among the Nine for reverse preferences--has been reluctant to eliminate completely any reciprocal obligation on the part of the associated countries.

The Maghreb states, led by Algeria, base their opposition to reverse preferences on political grounds, citing the importance of maintaining solidarity with the African, Caribbean and Pacific states which are also generally opposed to reverse preferences in their negotiations for an association agreement with the EC. The Maghreb position, however, has been moderated by a promise not to exclude the possibility of certain concrete measures as return gestures.

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The EC is planning a second round of negotiations with four Mediterranean states--Egypt and Lebanon, which already have preferential agreements with the EC, and Jordan and Syria. These negotiations, based on the results of the Maghreb arrangements, should begin by spring. There are indications that the community may hold up a complementary protocol to the EC-Israel agreement that provides Israel with European Investment Bank credit facilities until this second round of negotiations is completed.

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Greece and Turkey have long-standing association agreements with the EC which predate the community's more comprehensive Mediterranean policy and provide for the possibility of eventual full membership in the EC. The Cyprus crisis and its aftermath has prompted a reappraisal of these agreements and the EC's looser preferential trade pact with Cyprus. Greece's association agreement--"frozen" since the military assumed power in 1967--has now been reactivated, however, and Athens is now seeking closer ties with

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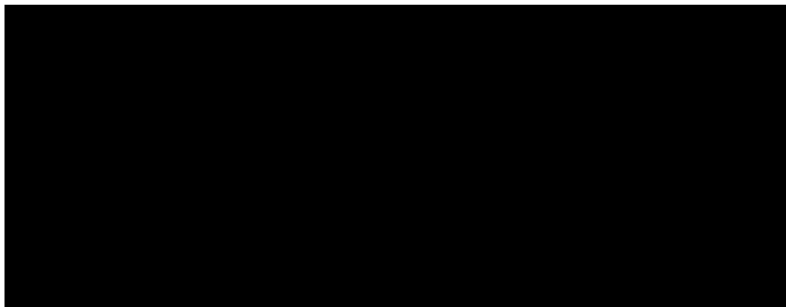
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the EC. The Nine, cautious in their response to Greece's new initiatives, have begun a reexamination of both the Greek and Turkish association agreements with a view toward harmonizing certain financial, migrant and agricultural protocols with the new Mediterranean policy. Protocols to take into account the enlarged EC membership are also being negotiated.

Portugal, which has a preferential trade agreement with the EC, decided not to press for full community membership following the change of government last April. Instead, the Portuguese are requesting additional trade concessions from the EC and are actively seeking development assistance from the EC and its member states.

The EC's relations with the remaining littoral states--Yugoslavia, Albania and Libya--are far more limited. Yugoslavia has a non-preferential trade agreement with the EC but is seeking to expand it. Libya has expressed no interest in the EC's global Mediterranean policy and has relations with the community only in the context of the Euro-Arab dialogue. Albania is the one Mediterranean country that has no contacts with the EC. (Confidential No Foreign Dissem)

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